



fed LETTER

Colorado ★ Kansas ★ Missouri ★ Nebraska ★ New Mexico ★ Oklahoma ★ Wyoming

March 2008

FEDERAL RESERVE BANK of KANSAS CITY

FED GRAND OPENING: NOTICE TO ALL TENTH DISTRICT BANK CEOs

Bank President Tom Hoenig invites you to mark your calendars for the morning of June 12 for a bankers' open house at the Federal Reserve Bank of Kansas City's new headquarters at One Memorial Drive, Kansas City, Mo. Fed Chairman Ben Bernanke will join us in dedicating the building. An invitation will be forthcoming in the spring. We hope you will join us for this once-in-a-century event.

TENTH DISTRICT MANUFACTURING ACTIVITY SOMEWHAT WEAK; EXPECTATIONS RISE

The monthly [manufacturing survey](#) for the Tenth Federal Reserve District was released Feb. 28. The survey asks plant managers about a variety of manufacturing indicators. The information is compiled into a snapshot of manufacturing activity in the Tenth District.

Tenth District manufacturing activity was somewhat weak in February, but firms' expectations for future factory activity were stronger than in January and generally positive. Price pressures increased, with a considerable jump in raw materials price indexes, particularly among producers in the food and metal industries.

DISTRICT CROPLAND VALUES SURGED IN FOURTH QUARTER

Cropland values boomed in fourth quarter 2007, according to the Federal Reserve Bank of Kansas City's [Survey of Agricultural Credit Conditions](#).

In the survey of 268 banks in the seven-state Tenth Federal Reserve District, both nonirrigated and irrigated cropland values surged at a record pace, rising 21 percent and 18 percent above year-ago levels. Bankers also cited more farmland sales in 2007 than in the previous year. They noted more farmers were active in the land market, with fewer land purchases for recreational use in 2007. Those surveyed expected farmland values to rise further in 2008, especially in nonirrigated cropland.

THE FEDERAL RESERVE BANK
OF KANSAS CITY IS MOVING

The Federal Reserve Bank of Kansas City will formally begin business at its new headquarters on March 10. All written Bank correspondence after this date should be sent to the Bank's new address, which is:

Federal Reserve Bank of Kansas City

1 Memorial Drive

Kansas City, MO 64198-0001

Bank phone numbers will remain the same.

ECONOMIC REVIEW ARTICLE
EXAMINES RURAL ECONOMY

"Will Rural Prosperity Prevail in 2008?" is now available on the Bank's Web site. This first quarter *Economic Review* article by Jason Henderson and Maria Akers reviews the state of the rural economy in 2007 and discusses rural prospects for 2008.

FINANCIAL INDUSTRY
PERSPECTIVES ANALYZES RURAL
BANKING MARKETS

The January 2008 issue of *Financial Industry Perspectives*, titled **"The Changing Influence of Market Structure on Performance in Rural Banking Markets 1985 Through 2005,"** is now available.

Authors James Harvey and Forest Myers ask whether the relationship between traditional measures of market concentration and the performance of banks has changed in rural markets.

REGULATORY
DEVELOPMENTS
Payment System Risk (PSR)
policy announcements

The Federal Reserve Board is requesting public comment on proposed changes to its **PSR Policy** that are intended to loosen intraday liquidity constraints and reduce operational risks in financial markets and the payments system. The Board is proposing a new strategy for providing intraday credit to depository institutions (DIs) and is encouraging these DIs to collateralize their daylight overdrafts.

The proposed changes stem from the Board's extensive review of long-term developments in intraday liquidity, operational risk and risk management in financial markets and the payments system, including the increased use of daylight overdrafts at the Federal Reserve Banks and increased Fedwire funds transfers late in the day. In 2006, the Board published for public comment a consultation paper on these issues. Comments received on the consultation paper, as well as the extensive review conducted by the Board, resulted in the current proposal, which includes:

- Adopting a policy of supplying intraday balances to healthy DIs predominantly through explicitly collateralized daylight overdrafts. Collateralization would be voluntary, resulting in a zero fee. Fees for uncollateralized daylight overdrafts would be raised to 50 basis points (annual rate) from the current 36 basis points. To minimize the effect of the proposed changes on DIs that use small amounts of daylight overdrafts, the biweekly fee waiver would be increased from \$25 to \$150;

*Payment System Risk (PSR)
policy announcements
(Continued)*

- Adjusting the net debit cap levels;
- Streamlining procedures for the expansion of daylight overdraft capacity for certain foreign banking organizations;
- Eliminating the current deductible for daylight overdraft fees; and,
- Increasing the penalty daylight overdraft fee for ineligible DIs to 150 basis points (annual rate) from the current 136 basis points.

To assist DIs in assessing the impact of the proposed changes, the Board is providing a simple fee calculator that will allow DIs to estimate their daylight overdraft fees under the proposed policy. The Board expects that a revised PSR Policy could be implemented approximately two years from the adoption of a final rule. Comment is requested by **June 4, 2008**.

In other PSR Policy developments:

The Federal Reserve Board is requesting public comment on a proposed change to the **PSR Policy's daylight overdraft posting rules** to align the daylight overdraft posting times for commercial and government Automated Clearing house (ACH) credit and debit transfers processed by the Federal Reserve Banks' FedACH service. Currently, FedACH credit transfers are posted at 8:30 a.m. ET, while FedACH debit transfers are posted at 11:00 a.m. ET. Under the proposed change, both FedACH debit and credit transfers would be posted for daylight overdraft purposes at 8:30 a.m. ET.

In line with this change, and in consultation with the U.S. Treasury, the Board also intends to move the posting time for Treasury Tax and Loan investments associated with Electronic Federal Tax Payment System FedACH debit transfers to 8:30 a.m. ET to maintain the simultaneous posting of FedACH transactions and related Treasury transactions.

Comment is requested by **June 4, 2008**.

*Reporting loss mitigation of
subprime mortgages*

On Mar. 3, the Federal Reserve issued **Supervision and Regulation (SR)/Consumer Affairs (CA) Letter 08-2**, encouraging financial institutions that service subprime mortgage loans to report their loss mitigation activities consistent with uniform standards.

These financial institutions should consider utilizing the HOPE NOW alliance's loan modification reporting standards for their serviced loans. This standard reporting format will help investors in securitized mortgages monitor foreclosure prevention efforts and foster transparency in the securitization market.

This statement builds on previous statements issued by the Federal Reserve and the other federal banking agencies to encourage financial institutions to work constructively with residential borrowers who are financially unable to make contractual payment obligations on their home loans.

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